

# WHAT IS A REGULATORY SANDBOX?



**Relief from regulatory barriers can spur innovative growth in West Virginia. When individuals and businesses are provided the agency to create with low barriers to entry, prosperity is abundant. Regulatory sandboxes are a workroom for creation and should be available for all industries.**

The COVID-19 pandemic highlighted the reality that things can change overnight, and regulations cannot predict the future. Therefore, all-inclusive regulatory sandboxes are essential.

Businesses should be free of restrictions that hinder adaptation in an ever-changing market. An all-inclusive regulatory sandbox should be established to enable agencies to determine if a sandbox is best for them

## **1** What is it?

Regulatory sandboxes are an innovative regulatory approach that permits a live, time-bound, testing of new ideas under a regulator's distanced oversight.

Such set-ups allow for new innovative propositions to provide increased options in the market.

## **2** How exactly does it work?

Sandboxes are set up for a defined time in a defined location to allow innovators and business the opportunity to experiment in their industries free from any particular set of regulations.

At the end of a defined period of time, business results are evaluated to determine what regulations should apply to it if any at all.

## **3** What will change?

Entrepreneurs and innovators will finally have a set place to try new ways of creating products and services without excessive, outdated regulation.

For regulators, sandboxes provide the flexibility to monitor and foster innovation rather than halting it before it starts.

## **4** When will it happen?

Luckily, we know! In 2019, the Utah State Legislature passed a regulatory sandbox specifically for the Financial Technology, "fintech" industry. Then, in 2020, a second was established for the Insurance industry. By 2021, Utah passed the first in the nation "all inclusive" regulatory sandbox, allowing any industry to chance to experiment with new technologies.



## 5 Where did sandboxing come from?

In 2014, the U.K.'s Financial Conduct Authority (FCA) created "Project Innovate" to promote competition for financial technology (fintech). Its creation was to advance the ability to serve customers by making payment services easier to use and understand. To do so, the FCA allowed a pilot testing process for data decision-making.

The establishment of the first fintech sandboxes created favorable results. After hosting 700 participants, outcomes indicated that those who participated entered the market 40% faster, 80% graduated successfully from the program, and attracted 135 million in equity funding.[1] The program also incentivized existing companies not in the sandbox program to become more inventive and to partner with firms to share current strategies.[2]

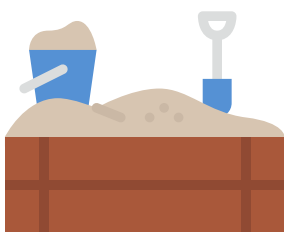
Subsequently, the U.K.'s model has served as a framework for regulatory sandboxes across the globe.

## 6 Does West Virginia have a sandbox?

During the 2020 Legislative Session, the state's legislature passed House Bill 4621, implementing a "fintech" sandbox, allowing some entities that normally require licensure in West Virginia to test an innovative idea or product.



# INTERESTED IN LEARNING MORE?



CHECK OUT OUR  
POLICY REPORT!

